

MAIN CONTENT OF GELEX'S ANNUAL REPORT 2016

II. PERFORMANCE IN THE YEAR

1. Business performance

In general, a significant growth has been seen both in revenue and profit of the Corporation and its subsidiaries. GELEX's consolidated net revenue in 2016 was VND 7,297 billion, down by 13% compared to VND 8,382 billion in 2015, the main reason is that some companies like THIBIDI, Hai Duong Pump, VINAKIP have been no longer subsidiaries of GELEX, therefore their revenues were not consolidated. The Electrical Equipment Joint Stock Company (THIBIDI) became an affiliate (43.44% held by GELEX) since July 2015. In December 2016, GELEX completed purchasing the company's additionally issued shares to increase its ownership in THIBIDI to 70.79%. For most of 2016, THIBIDI was an affiliate of GELEX. In GELEX's 2016 consolidated Financial Statements, THIBIDI was mainly presented as an affiliate and its revenue was not consolidated. If THIBIDI revenue for the whole year was consolidated, GELEX's 2016 revenue would be VND 9,814 billion, up by 17% compared to 2015. Consolidated profit after tax would reach VND 579 billion, a growth of 27.08% from VND 456 billion in 2015. Total net revenue of the Holding Company was VND 1,289 billion, and profit after tax was VND 305 billion, a 22% growth from VND 250 billion in 2015.

✓ Consolidated results

No.	ITEM	UNIT	ACTUAL 2015	ACTUAL 2016
1	Total assets	Billion VND	4,918	8,785
2	Net revenue	Billion VND	8,383	7,297
3	Profit after tax	Billion VND	456	579
4	Profit after tax attributable to shareholders of the Holding Company	Billion VND	321	462
5	Taxes and obligations	Billion VND	267	403

✓ The parent company

NO	ITEM	UNIT	ACTUAL 2015	TARGET 2016	ACTUAL 2016
1	Net revenue	Billion	1,350	1,400	1,289

		VND			
2	Profit before tax	Billion VND	283	260	334
3	Profit after tax	Billion VND	250	235	306
4	Dividend payout ratio	Billion VND	10%	10%	Estimated at 10%
5	Employee's average income	Billion VND	9.8	10	12.4
6	Tax and obligations	Billion VND	62	70	81

3. Investments, project implementation

3.1. Capital investment in member units

In 2016, GELEX carried out corporate restructuring to enhance capacity, strategic investment and capital management. The Corporation has better focused on strategic orientation and planning for its subholdings; business and production facilitation, coordination among member units; member unit monitoring and supervision; strategic investment implementation; corporate branding, as well as relationship building with partners and management agencies, specifically:

- ✓ During the year, the Electrical Devices Joint Stock Company No 1 has completed share issuance to increase charter capital from VND 34,000,000,000 to VND 45,600,000,000. The Corporation has purchased 510,305 shares equal to VND 6,123,660,000. As a result, the interests and voting rights of the Corporation has decreased from 51.3% to 49.24%. The Electrical Devices Joint Stock Company No I became an affiliate of GELEX.
- ✓ The Corporation has contributed VND 13 billion to form GELEX Investment and Construction Joint Stock Company (GELEX ICC), accounting for 81.25% of the company's charter capital.
- ✓ In 2016, the Hanoi Electromechanical Manufacturing Joint Stock Company successfully issued 4,550,000 equity shares. Because the amount of shares used for dividend payment has not been identified for the treasury stocks of subholdings, GELEX's interest and voting rights in HEM increased from 65.84% to 65.88%.

- ✓ The Corporation has sold all 1,793,758 shares in Hai Duong Pump Manufacturing Joint Stock Company, and no longer had it as a subholding.
- ✓ The Corporation has sold all 450,000 shares of Hanoi Materials and Construction Joint Stock Company.
- ✓ The Corporation has contributed VND 368 billion, accounting for 100% the charter capital to establish Electrical Measuring Instrument Co., Ltd (GELEX EMIC).
- ✓ The Corporation has established GELEX Energy One Member Co., Ltd with a charter capital of VND 500 billion. As of December 31, 2016, total capital contributed by the Corporation has been VND 220 billion.
- ✓ In 2016, the Corporation purchased 2,800,000 shares of CADIVI, increasing its interests and voting rights from 65.006% to 74.73%.
- ✓ The Corporation increased its ownership in Electrical Equipment Joint Stock Company (THIBIDI) from 43.44% to 70.79% via additional purchase of 26,727,705 shares, turning the Company into its subholding.
- ✓ The Corporation purchased 21,300,000 shares of South Logistics Joint Stock Company, accounting for 24.93% of the charter capital.

3.2. Investment in production capacity

Under the orientation of enhancing product competitiveness, the Corporation is well aware that the fundamental solutions are comprehensive investment, technological innovation and product development. In details:

- ✓ In 2016, CADIVI has completed the Electric Cable Manufacturing Factory project - Phase 2 in Tan Phu Trung Industrial Park, where equipment from CADIVI Saigon factory is expected to be completely relocated to in the second quarter of 2017. GELEX has also initiated investment in other important projects to improve its production capacity in member units. Examples of production areas to be improved were engine production in HEM assembly workshop, and investment for a new world-class factory of THIBIDI, etc.
- ✓ EVN – a key customer of the Corporation is implementing the Smart Grid Project which has been approved by the Prime Minister. Therefore, in 2016, GELEX-EMIC has continued the research and design of smart meters and significant progress has been made. 06 types of 1 phase, 3 phase smart and multifunctional meters have been developed and they all have met EVN's strict technical requirements, and the samples have been approved by the Directorate for Standards and Quality, piloted in the grid.
- ✓ CADIVI has completed the testing for low sag composite core ACCC 223 Copenhagen cable, improved quality for different types of civil cables, and

successfully manufactured some specialized cable products. In 2017, CADIVI shall produce new high quality products such as LEDs, wall sockets.

- ✓ THIBIDI has researched and successfully manufactured 3-phase Amorphous transformers (highly efficient ferromagnetic amorphous metal core transformer) for the project on energy efficiency, power loss reduction and CO₂ emission reduction. The investment in energy efficient products has promoted product efficiency, strengthened THIBIDI brand, and contributed to the national target on energy savings and energy efficiency.

5. Shareholder structure, change in owner's equity

5.1. Shares

- ✓ *As of December 31, 2016:*

- Total number of GELEX shares: 155,000,000
- Type of outstanding shares: common
- Number of treasury shares: 500,000

- ✓ *As of January 23, 2017, Vietnam Electrical Equipment Joint Stock Corporation has completed its initial public offering:*

- Total shares of GELEX: 232,000,000 shares
- Type of outstanding shares: common
- Number of restricted stocks: 7,120,101 within 1 year from January 20, 2017
- Number of treasury stocks: 500,000

5.2. Shareholder structure

Shareholder structure as of October 25, 2016

No.	Shareholder	Number (shareholders)	Number of shares	Par value	Percentage (%)
			(shares)	(VND)	
I	Domestic	1,365	145,206,600	1,452,066,000,000	93.68%
1	Institutional	39	98,391,146	983,911,460,000	63.48%
2	Individual	1,326	46,815,454	468,154,540,000	30.20%
II	Oversea	16	9,293,400	92,934,000,000	6.00%
1	Institutional	10	9,242,700	92,427,000,000	5.96%
2	Individual	6	50,700	507,000,000	0.04%
III	Treasury stocks	1	500,000	5,000,000,000	0.32%

	Total	1,382	155,000,000	1,550,000,000,000	100%
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III. BOD’S REPORT AND ASSESSMENT

1. Business performance assessment

In 2016, the Corporation focused on two main tasks of production acceleration in the Holding Company, subholdings and affiliates and the restructuring plan approved by AGM. Business performance in 2016 was as follows:

1.1. CADIVI power cables and wires

The year 2016 saw an abnormal upward fluctuation of LME non-ferrous and copper materials and the scarce of supply. Fierce competition occurs in power cable and wire market. The devaluation of VND against USD (by 2%) resulted in higher imported materials cost. In addition, CADIVI also had to cope with its internal difficulties due to scattered production facilities, factory relocation out of the inner city, etc, resulting in the production and transportation cost constraints. Delayed bid evaluation in the power sector also led the fact that, contracts were awarded at the end of the year when copper price surged and profit margin was down significantly.

However, thanks to the robust steering of GELEX and the BOM, CADIVI has successfully maintained its market share. In 2016, CADIVI’s consolidated net revenue stood at VND 5,631 billion, a slight decrease from VND 5.667 billion in 2015, total profit after tax reached VND 239 billion, up by 40.5% compared to VND 170 billion in 2015.

1.2. THIBIDI, HEM Transformers

✓ THIBIDI transformers

THIBIDI transformer faced fierce competition from domestic and foreign competitors in 2016. Material price remained high, leading to high production cost. As regional manufacturers invested in better production capacity, applied flexible discount policy, as well as competition tricks, the company’s sale was affected. Despite of that, with the strong commitment to quality, well-known brand, advanced technology, experienced, skilled technical team, and best quality material and services, dedicated post-sale service and warranty, THIBIDI was still able to affirm its brand in domestic and foreign market.

In 2016, THIBIDI had an impressive growth with a total net revenue of VND 2,535 billion, a growth of 26.6% compared to VND 2002 billion in 2015, profit after tax reached VND 210 billion, up by 31.2% compared to VND 160 billion in the previous year.

✓ HEM transformers

The Northern transformer market witnessed a fierce competition among 20 manufacturers with firm advantages such as ABB, HANAKA, Dong Anh Electrical Equipment and many small enterprises with flexible structure and low cost. As the

transformer standards vary by region and project, it's very difficult in terms of the design and production optimization. Material price fluctuation in 2016, in particular at the end of the year has also led to a severe competition on HEM transformer in terms of sale price. Thanks to its flexible sales policy, relevant pricing and customer approach, HEM has strengthened its position in the market and customer's trust for its transformers, especially dry transformers for Hanoi urbanization. HEM has been awarded with several valuable contracts of EVN, and initially expanded the market to the South and Central regions, where amorphous transformers are popular.

In 2016 HEM's consolidated net revenue was nearly VND 683 billion, growing by 20% from VND 567 billion in 2015 and consolidated net profit reached VND 68 billion, a 19% growth from VND 57 billion in 2015.

1.3. EMIC metering equipment

To separate investment management and electrical measuring equipment production, Electrical Measuring Instrument Co., Ltd (GELEX EMIC), which is 100% owned by GELEX, was established on September 1, 2016. The company specializes in manufacturing and trading all kinds of electrical measuring equipment with the brand name GELEX-EMIC including: electric and electronic meters, transformers, medium and low-voltage current transformers, volt meters, amp meters of all kinds.

Since 2016 there has been no more bidding package on mechanical meters from 05 Distribution Corporations under EVN, the company only retailed mechanical meters in small quantity and provided for some packages funded by surplus budget of rural electricity projects. Therefore, the termination of mechanical meters production was inevitable. The 90% reduction in mechanical meters production has caused unemployment and income problems. Many experienced workers in mechanical meter production have to switched to other jobs and learn from the beginning. In addition, unused assets including factories, machineries, production lines that are still depreciated every month have placed a burden on production cost. Under such situation, GELEX-EMIC aims to become high-tech company, providing smart electronic products. However, EVN's technical requirements of electronic meters constantly change and high-tech products may quickly become obsolete. At the same time, more and more Chinese suppliers have joined the market and placed heavy pressure on EMIC's market share and profit.

Being a new player in the e-meter market, GELEX-EMIC has constantly improved its products to achieve the target of stabilizing technology, quality and production to meet requirements of EVN. During the year, GELEX EMIC has studied and successfully produced another 06 types of 1 phase, 3 phase smart and multifunctional meters meeting requirements of EVN. The samples have been approved by the Directorate for Standards, Metrology and Quality and piloted in the grid.

EMIC's 2016 net revenue (from September 1, 2016 - December 31, 2016) was VND 209.8 billion; profit after tax was nearly VND 58.7 billion.

1.4. HEM, VIHEM electric motors

✓ HEM electric motors

HEM's electric motors are under fierce competition in the market with many manufacturers and potential manufacturers of small-sized electric motors such as Minh Motor, Tran Hung Dao, VTC, and Toan Phat. These manufacturers provide low capacity and low cost motors and have huge price competitiveness in the market. There was also strong competition in the large-sized motor segment where Chinese manufacturers provide cheap products with good form. Industrial maintenance service market was also similar in terms of price and customer care. In 2016, small companies joined electric motor maintenance and repair sector.

HEM's competitive advantage is still a strong brand and the company has many production and assembly units, a large distribution network covering many regions and provinces in the country. Recently investment has been made on improving production and maintenance service capacity for various products and service demand. HEM electric motor still maintains its market reputation, in particular in the South where more and more customers have chosen the company's products. In the North, the Company has dominated the market and obtained revenue growth for small motors. In 2016, HEM has produced 16,380 main motors, equivalent to 102.1% of the previous year, and sold 16,059 motors, or 102.9% of 2015.

✓ VIHEM electric motors

VIHEM experienced many difficulties in material price fluctuation, fierce competition from domestic workshops' products, Chinese cheap and low quality, second hand motors, etc. Although VIHEM has been strictly compliant to energy efficiency production process with energy efficiency labeling, there have been still fake products in the market. The asynchronous control of energy efficiency labeling has led to unfair competition between VIHEM and uncontrolled, poor quality products. However, VIHEM electric motor still maintained its position and customer's trust, production and employment, income for employees.

In 2016, VIHEM's net revenue reached VND 186 billion which was 95.3% of 2015 and 103.3% of the plan, profit after tax reached VND 7.9 billion, reducing cumulative loss in 2015 to VND 51 billion at the end of 2016.

1.5. VINAKIP Electrical Appliance

With 50 years of experience in the production of switch, controller and HV, MV and LV protection equipment, VINAKIP provides electric appliances of 1, 2, 3 pole CIRCUIT BREAKER; box breaker of 100A to 3,000A, magnetic starter of 10A to 400A; 12kV, 24kV

& 35kV isolation breaker, household appliance such as porcelain base breaker; Ballast of 20W to 400W; switches, sockets, electrical panels, lamp bases meeting Vietnamese and international standards.

In 2016, price of all materials went up, in particular non-ferrous metals and plastics, while total market demand for electric appliance went down with completion from cooperatives, small workshops, Chinese low quality, and cheap products. As a result, the company sales encountered many challenges, inventory soared. Nevertheless, VINAKIP has applied solutions for production promotion and market development and completed 100% of the target.

Total net revenue in 2016 was VND 300 billion, up by 5.2% from VND 285 billion in 2015, net profit reached VND 14 billion, increasing by 11% from VND 12 billion in 2015.

2. Financial performance

- Implementing the AGM's Resolution on the restructuring plan, GELEX has issued shares to existing shareholders and warrant-linked bonds in 2016 as follows:

+ Capital raising from share issue: Target mobilization was **VND 1,390.5 billion**, and the actual mobilization was **VND 1,386 billion**. (Completed on January 23, 2017)

+ Capital raising from warrant-linked bonds issue: Target mobilization was **VND 2,000 billion** in par value, actual mobilization was **VND 1,800 billion** in par value.

- Capital and asset management and use have been well implemented; shareholders' investment has been well maintained and expanded. In terms of financial management, beside the sound allocation and use of the funding sources for production and business operation, cash flows have been stably circulated; low financial costs has been recognized through the use of low-cost loans, etc. Investments in member units have been closely and effectively monitored as well.

- Details of Assets, Liabilities are in Item 4, Part II

- Accounting is well implemented, strictly managed; accurate periodical financial statements are prepared and fulfilling information disclosure obligations. Financial situation is healthy and sustainable.

3. Organization structure, policy, management restructuring

In 2016, many GELEX internal rules, regulations have been consolidated, developed and revised to suit the ownership structure and new management model, such as Regulation on organization and operation of the BOD, BOM, Regulation on authority decentralization, Regulation on the organization and operation of Divisions, Regulation on finance, procurement, internal cost norms. In addition, the Corporation has also prepared other internal management regulations such as Regulation on the representative for GELEX's

capital in companies, to stipulate the contributed capital management and improve GELEX's capital investment in companies.

Each member unit of GELEX has also strengthened its system of corporate governance regulations and policies. The revision, supplement and issuance of internal rules and regulations have contributed to improving management capacity and efficiency to meet actual requirements.

4. Business plan

4.1. Electrical equipment

✓ CADIVI

- Become GELEX's core business of electric cables and appliance. CADIVI shall be the Corporation's main brand in electric cables, appliance, and household electrical devices sector.
- Promote R&D activities; further cooperate with Japanese, Korean and EU partners for technology transfer, product copyright to aim at high-end, energy efficient and environmentally friendly products.
- Expand the market, export to countries in the region.
- Carry out long-term strategic investments in other companies in the industry for market expansion and market share increase.

✓ THIBIDI

- Become GELEX's transformer core business and main brand .
- Promote R&D activities for new product development. Focus on 25 - 25 KV distribution transformer segment. Amorphous transformers (energy efficient ferromagnetic amorphous metal core transformer) shall be studied and manufactured. Promote cooperation with Japanese and Korean, and other strategic partners to manufacture 110 - 220 - 500 KV transformers for products diversification.
- Expand the market, export to countries in the region.
- Carry out long-term strategic investments in other companies in the industry for market expansion and market share increase.

✓ GELEX EMIC

- Become a high-end company with smart electronic products. Cooperate with large foreign companies to produce smart meters, DCU to link with HEAD systems.
- Target a comprehensive solution for electricity data collection, provide data collection package to power sector .
- Expand the market, export to countries in the region.

✓ **HEM**

- Become GELEX's core business and brand in electric motors and related service.
- Promote R&D activities for new product development; cooperate with Japanese, Korean and EU partners for technology transfer, product copyright to aim at diversified high-end, energy efficient, and environmentally friendly products.
- Promote R&D activities for new product development.

✓ **VINAKIP, HEM**

- VINAKIP and VIHEM shall focus on manufacturing sector, becoming a fabricating unit for other units under GELEX.

✓ **Distribution channel development**

- Review and restructure the existing sales system of the Holding Company and subholdings. Build a strong sales team for the Holding and its subholdings. Agent-based sales shall be the main channel, accounting for the largest proportion in the entire Corporation sales.
- Develop a centralized distribution and sales system for the entire GELEX, to replace the existing fragmented system.

4.2. *Energy, utility*

- Invest in powder generation as per the policy approved by the AGM, with a focus on hydropower, renewable energy like wind and solar power.
- Invest in clean water supply for production and consumption. Beside the power market, this market shall have increasing demand under the context of economic development.
- Investments can be in the form of green field projects or long-term strategic investment in companies in the industry.

4.3 *Logistics*

- SOTRANS shall be the Corporation's key logistics brand. It will become an enterprise with a closed logistics chain and provide all services such as goods delivery, transportation, storage, seaports, airports, etc.
- Bold investments shall be made to develop warehouses, ports, ICDs in key economic regions of the country, in particular the two major production hubs of Hanoi - Hai Phong and Ho Chi Minh City - Ba Ria - Vung Tau. In terms of transportation, waterway transport shall be focused with robust barges.
- To be in the top 3 logistics companies in Vietnam.

4.4. Real Estate

- Existing properties with prime locations of the Corporation and its members shall be exploited.
- Focus on hotel and office for lease.

4.5. Financial sector

- The Vietnam Electrical Equipment Joint Stock Corporation shall play the leading role, facilitating member units in financing arrangement, fund raising to ensure low operational cost and the balanced, safe and efficient cash flow within the system.
- Support GELEX's member units in production cost reduction, product competitiveness improvement by deploying a centralized procurement plan for production materials, large quantity procurement, to obtain best price and terms.
- Look for foreign strategic partners in relevance with the Corporation's business strategy.

4.6. Governance

- Complete the governance model of the Holding Company and subholdings towards transparency, standardization, and legal compliance. Production units shall enhance production governance towards advanced standards, energy efficiency and environmentally friendliness.
- Apply modern governance technique, apply information technology in all management aspects of GELEX and its subsidiaries. Carry out comprehensive reform of internal transactions on the basis of improved connectivity - information sharing – quick delivery – efficiency – zero barrier – legal compliance.

4.7. Organization, human resources

- Improve the organization and human resources of the Holding Company and subholdings. Salary and remuneration policies shall be improved; transparent and modern working environment, corporate culture shall be built to attract and retain employees, especially highly qualified ones for the business expansion and development.
- Organize training and capacity building for employees. Employees shall be trained to form a stable and sustainable human resources for the Holding Company and subholdings.

4.8. Branding

- Efforts shall be paid to GELEX branding, to bring GELEX become a strong national brand, towards an international brand.

- Build the robust brand for each core product group of the Corporation.
- Develop a uniform communication and branding plan for the Corporation to save resources, reduce cost and increase brand consistency.

4.9. GELEX's targets for 2017

No.	ITEM	UNIT	TARGET 2017
I	Total consolidated revenue	Billion VND	10,900
II	Consolidated profit after tax	Billion VND	1,050
III	Employee's average income	Million VND/person/month	12.738
IV	Tax and obligations	Billion VND	500

IV. BOD'S ASSESSMENT OF GELEX PERFORMANCE

1. BOD'S assessment of GELEX's business performance

In 2016, the national economy had some recovery signals; demand for electric equipment increased, positively impacting the Corporation's business results.

Thanks to the BOD and BOM's sound management and execution, the great efforts of subsidiaries and employees, the Vietnam Electrical Equipment Joint Stock Corporation has exceeded the profit target set out by the AGM 2016. Profit after tax reached VND 579 billion, up by 27.08% compared to 2015. Total net revenue of the Holding Company stood at VND 1,289 billion, profit after tax was VND 305 billion dongs, climbing by 22% from VND 250 billion in 2015.

In addition, the BOD has successfully directed the Company's restructuring assigned by the extraordinary AGM 2016.

2. BOD's assessment of BOM's performance

In 2016, the BOD has closely supervised the BOM on the following tasks: implementation of Annual and Extraordinary AGM's Resolutions, BOD's Decisions, the production and business management, to ensure the compliance with the law, Corporation's Charter while not affecting the BOM's proactiveness and creativeness.

The supervision results show that the CEO and management staff have fulfilled their tasks with the highest responsibility. AGM's Resolutions, BOD's Resolutions and Decisions have been fully implemented for the Corporation's stable and sustainable development.

3. BOD's plans and orientations

In 2017, to achieve the targets presented in the CEO's report, the BOD proposes several solutions as follows:

- Improve internal rules and regulations to have a uniform investment capital management scheme and improve GELEX's capital investment efficiency;
- Through the capital representative, engage in the organizational structure development, direct the long-term development of member units;
- Remove obstacles to enhance production and business; promote capital mobilization and capital efficiency;
- Apply modern and advance technology in production. Actively select suitable options for production innovations, improve management capacity. Proactively penetrate into and expand markets; at the same time, develop relevant business strategy and plan for each product and product group.
- Increase the product quality, efficiency and competitiveness. Optimize production capacity and exploit domestic as well as foreign market demand.
- Strengthen and develop the distribution system to increase the market share for traditional products.
- Enhance market forecasting and analysis; apply saving measures to improve production and business efficiency.
- Build a team of staff basing on the core values and advancement promotion. Recruit and train skilled workers, competent engineers and economic experts who have language proficiency and technical expertise and a team of qualified senior management staff who have profound legal knowledge.

In addition, the BOD, together with member units, shall prepare a development strategy, detailing tasks and solutions that are tailored for businesses and units.